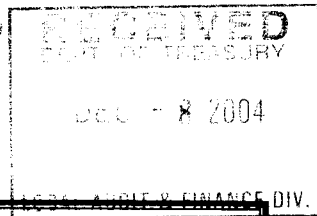


35-7513



Wurtsmith Development Commission

Oscoda, Michigan

Financial Statements

September 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Wurtsmith Development Commission	County Iosco
Audit Date 9/30/04	Opinion Date 10/20/04	Date Accountant Report Submitted to State: 11/29/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

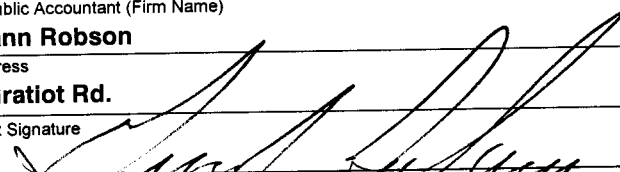
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).	✓		

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5800 Gratiot Rd.		City Saginaw	State MI
Accountant Signature 		ZIP 48603	Date 12/7/04

WURTSMITH DEVELOPMENT COMMISSION

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 20, 2004

Commission Members
Wurtsmith Development Commission
Oscoda, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Wurtsmith Development Commission (the "WDC")**, as of and for the year ended September 30, 2004, which collectively comprise the WDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the WDC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of **The Wurtsmith Development Commission**, as of September 30, 2004, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2004, on our consideration of the **Wurtsmith Development Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The *Wurtsmith Development Commission* has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Wurtsmith Development Commission's* basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

Rehmann Johnson

Wurtsmith Development Commission
Statement of Net Assets
September 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 156,040
Prepaid items	4,931
Capital assets being depreciated, net	<u>37,590</u>
Total assets	<u>198,561</u>
Liabilities	
Accounts payable	21,016
Advances from the federal government	<u>110,273</u>
Total liabilities	<u>131,289</u>
Net assets	
Invested in capital assets, net of related debt	37,590
Unrestricted	<u>29,682</u>
Total net assets	<u><u>\$ 67,272</u></u>

The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Statement of Activities
For the Year Ended September 30, 2004

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Public works	<u>\$ 1,208,439</u>	<u>\$ 593</u>	<u>\$ 451,174</u>	<u>\$ -</u>	(756,672)
General revenues:					
Unrestricted interest on deposits					<u>3,131</u>
Change in net assets					(753,541)
Net assets, beginning of year, as restated					<u>820,813</u>
Net assets, end of year					<u>\$ 67,272</u>

The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Balance Sheet
Governmental Funds
September 30, 2004

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Heat Conversion</u>	<u>Re-User Fund</u>	<u>Totals</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 127,559	\$ 11,101	\$ 17,380	\$ 156,040
Due from other funds	1,967	-	-	1,967
Prepaid items	4,931	-	-	4,931
Total assets	<u>\$ 134,457</u>	<u>\$ 11,101</u>	<u>\$ 17,380</u>	<u>\$ 162,938</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 19,253	\$ 1,763	\$ -	\$ 21,016
Due to other funds	-	1,967	-	1,967
Advance from federal government	110,273	-	-	110,273
Total liabilities	<u>129,526</u>	<u>3,730</u>	<u>-</u>	<u>133,256</u>
Fund balances				
Reserved:				
Heat conversion projects	-	7,371	-	7,371
Prepaid items	4,931	-	-	4,931
Unreserved:				
Designated for subsequent year expenditures	-	-	17,380	17,380
Total fund balances	<u>4,931</u>	<u>7,371</u>	<u>17,380</u>	<u>29,682</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 134,457</u>	<u>\$ 11,101</u>	<u>\$ 17,380</u>	<u>\$ 162,938</u>

The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
September 30, 2004

Fund balances - total governmental funds	\$ 29,682
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	54,766
Deduct: accumulated depreciation	<u>(17,176)</u>
Net assets of governmental activities	<u><u>\$ 67,272</u></u>

The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Statement of Revenue, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2004

	Major Funds			
	General Fund	Heat Conversion	Re-User Fund	Totals
Revenue				
Local sources	\$ 5,083	\$ 495	\$ 593	\$ 6,171
Federal sources	448,727	-	-	448,727
Total revenue	453,810	495	593	454,898
Expenditures				
Air Force reimbursable expenditures	451,456	750,694	-	1,202,150
Non-reimbursable expenditures	495	-	47	542
Total expenditures	451,951	750,694	47	1,202,692
Revenue over (under) expenditures	1,859	(750,199)	546	(747,794)
Other financing sources (uses)				
Transfers in from other funds	3,072	-	-	3,072
Transfers (out) to other funds	-	(1,722)	(1,350)	(3,072)
Total other financing sources (uses)	3,072	(1,722)	(1,350)	-
Net change in fund balances	4,931	(751,921)	(804)	(747,794)
Fund balances, beginning of year	-	759,292	18,184	777,476
Fund balances, end of year	\$ 4,931	\$ 7,371	\$ 17,380	\$ 29,682

The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2004

Net change in fund balances - total governmental funds \$ (747,794)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Subtract: depreciation expense

(5,747)

Change in net assets of governmental activities

\$ (753,541)

The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended September 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
REVENUES				
Federal grant	\$ 705,875	\$ 705,875	\$ 448,727	\$ (257,148)
Interest income	-	-	3,131	3,131
Other	-	-	1,952	1,952
TOTAL REVENUES	<u>705,875</u>	<u>705,875</u>	<u>453,810</u>	<u>(252,065)</u>
EXPENDITURES				
Equipment inventory	1,000	1,000	951	(49)
Custodial services	4,500	4,500	2,276	(2,224)
Computer operation & maintenance	2,000	2,000	453	(1,547)
Administrative support	278,600	278,600	222,573	(56,027)
Building inspections	6,000	6,000	1,959	(4,041)
Grounds maintenance	32,000	32,000	21,670	(10,330)
Building maintenance	110,000	110,000	30,146	(79,854)
Electrical systems	2,000	2,000	828	(1,172)
Water and waste water system	140,000	140,000	87,513	(52,487)
Storm water collection system	5,000	5,000	2,835	(2,165)
Fuels storage system	1,000	1,000	-	(1,000)
Maintenance personnel uniforms	2,000	2,000	583	(1,417)
Pest control	2,500	2,500	73	(2,427)
Refuse collection and disposal	2,000	2,000	690	(1,310)
IRP Support	2,700	2,700	2,521	(179)
Laboratory sampling and analysis	1,000	1,000	-	(1,000)
Asbestos management	2,500	2,500	-	(2,500)
Lead paint management	1,000	1,000	-	(1,000)
Special waste	2,000	2,000	-	(2,000)
Installation patrols / fire response	76,000	76,000	62,250	(13,750)
Snow and ice removal control	10,000	10,000	6,652	(3,348)
Generator maintenance	1,475	1,475	151	(1,324)
Vehicle maintenance and control	20,500	20,500	7,332	(13,168)
Non-AFBCA expenditures	100	100	495	395
TOTAL EXPENDITURES	<u>705,875</u>	<u>705,875</u>	<u>451,951</u>	<u>(253,924)</u>
REVENUE (OVER) UNDER EXPENDITURES	<u>-</u>	<u>-</u>	<u>1,859</u>	<u>1,859</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	3,072	3,072
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>4,931</u>	<u>4,931</u>
FUND BALANCES, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,931</u>	<u>\$ 4,931</u>

The accompanying notes are an integral part of these financial statements.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Wurtsmith Development Commission (the "WDC") has followed the guidelines of GASB Statement No. 14 and determined that no entities should be consolidated into its financial statements as component units. The criteria for including a component unit includes significant operational or financial relationships with the WDC. Therefore, the reporting entity consists only of the primary government.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest earned on deposits is not properly included among program revenues and is reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the general operating fund of the Commission. It is used to account for all financial resources reimbursable under the Basic Caretaker Agreement, an agreement between the Commission and the Department of Defense.

The *heat conversion special revenue fund* is used to account for the proceeds of specific grant revenue that is legally restricted to expenditures for specified purposes.

The *re-user special revenue fund* is used to account for operations that are not reimbursable by the Department of Defense and is financed primarily by charges to base re-users for services provided.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or for goods, services, or privileges provided, and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all interest earned on deposits.

When both restricted and unrestricted resources are available for use, it is the WDC's policy to use restricted resources first, then unrestricted resources as they are needed.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

ASSETS, LIABILITIES AND EQUITY

Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Prepaid items

Certain payments made to vendors are for services applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital assets

Capital assets consist of equipment and are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	2-10

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS AND BUDGETARY ACCOUNTING

Comparisons to budget are presented for the General Fund. Budgets were not adopted for Special Revenue funds in fiscal year 2004. The Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget for the General Fund is adopted by Caretaker Agreement line item.
2. Budgeted amounts presented are as originally adopted and as amended by the Commission with approval by the Air Force Base Conversion Agency.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The General Fund had expenditures exceeding budgeted appropriations at the Caretaker Agreement line item level, which is the WDC's legal level of budgetary control for the year ended September 30, 2004.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL FUND			
PUBLIC WORKS			
Non-AFBCA expenditures	\$100	\$495	\$395

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS

A reconciliation of cash and investments as shown in the basic financial statements to the WDC's deposits and investments is as follows:

	<u>Total</u>
Government-wide Financial Statement Captions:	
Cash and cash equivalents	<u>\$ 156,040</u>
Notes to Financial Statements:	
Deposits	\$ 155,940
Cash on hand	<u>100</u>
Total	<u>\$ 156,040</u>

At September 30, 2004, the carrying amount of the WDC's deposits was \$156,040 and the bank balance was \$330,469. Of the bank balance, \$217,574 was covered by Federal Depository Insurance and \$112,895 was neither insured nor collateralized.

The WDC's deposits are in accordance with statutory authority.

B. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated:				
Equipment	\$ 54,766	\$ -	\$ -	\$ 54,766
Less accumulated depreciation				
Equipment	<u>(11,429)</u>	<u>(5,747)</u>	<u>-</u>	<u>(17,176)</u>
Governmental activities capital assets, net	<u>\$ 43,337</u>	<u>\$ (5,747)</u>	<u>\$ -</u>	<u>\$ 37,590</u>

Depreciation expense was charged to the public works function of the primary government.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. PAYABLES

Accounts payable consists of amounts owed to vendors for goods and services provided prior to the end of the fiscal year.

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2004, is as follows:

Due to	Due From		
	General	Heat Conversion	Total
General	\$ 1,967	\$ -	\$ 1,967
Heat Conversion	-	1,967	1,967

The interfund receivables and payables for the WDC of \$1,967 consist of interest earnings in the Heat Conversion Fund that are payable to the General Fund. Interfund transfers of \$3,072 consist of interest earnings in the Heat Conversion Fund and refunds and rebates earned in the Re-User Fund that were transferred to the General Fund.

Transfer to	Transfer from	
	General	
Heat Conversion	\$	1,722
Re-User		1,350
Total	\$	3,072

E. RESTATEMENTS

Implementation of new accounting standards

As of and for the year ended September 30, 2004, the WDC implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- ◆ No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- ◆ No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- ◆ No. 38 – *Certain Financial Statement Note Disclosures*

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

Interpretation

- ◆ No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The WDC was required to implement the new requirements no later than the current fiscal year ending September 30, 2004.

The more significant of the changes required by the new standards include:

- ◆ Management's discussion and analysis;
- ◆ Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements;
- ◆ Required supplementary information.

As a result of implementing these pronouncements for the fiscal year ended September 30, 2004, the following restatements were made to beginning net assets:

Government-wide financial statements.

Beginning net assets for governmental activities were determined as follows:

Fund balances of general, special revenue, and capital project funds as of 9/30/03	\$ 777,476
Add: governmental capital assets, including General fixed assets, as of 9/30/03	54,766
Deduct: accumulated depreciation as of 9/30/03 on above governmental fixed assets	<u>(11,429)</u>
Governmental net assets, restated, as of 9/30/03	<u>\$ 820,813</u>

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

F. CONTINGENCIES AND COMMITMENTS

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, WDC management does not believe such disallowances, if any, will be material to the financial position of the WDC.

G. RISK MANAGEMENT

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As required by the Department of Defense, the Commission has purchased commercial insurance to cover these losses up to \$10,000,000 per occurrence. There are no significant outstanding deductibles related to insurance coverage. There were no significant reductions in insurance coverage from the prior year. Settlement amounts regarding claims against the Commission have not exceeded insurance coverage for any of the past three fiscal years.

H. CARETAKER AGREEMENT

The Basic Caretaker Agreement between the Commission and the Department of Defense is scheduled to expire on December 15, 2004. When the caretaker agreement expires, the Commission will dissolve and cease to exist as a governmental entity, with all of the Commission's assets reverting to either the Department of Defense or to the local townships.

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SINGLE AUDIT SECTION

WURTSMITH DEVELOPMENT COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

<u>Federal Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Defense - Air Force		
Basic Caretaker Agreement	Not available	\$ 451,951
Heat Conversion Project	Not available	<u>750,694</u>
Total Federal Award Expenditures		1,202,645
<u>Reconciliation to Federal Revenue Recognized in Financial Statements</u>		
Add: Prepaid items recorded in the General Fund		4,931
Less: Interest and program income earned on federal grant proceeds		(8,155)
Less: Expenditures for Heat Conversion Projects funded with equity		<u>(750,694)</u>
Total federal revenue recognized in financial statements		<u><u>\$ 448,727</u></u>

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Wurtsmith Development Commission and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations."



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 20, 2004

Commission Members
Wurtsmith Development Commission
Oscoda, Michigan

We have audited the financial statements of the governmental activities and each major fund *Wurtsmith Development Commission* as of and for the year ended September 30, 2004, which collectively comprise the WDC's basic financial statements, as listed in the table of contents, and have issued our report thereon dated October 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the *Wurtsmith Development Commission's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Wurtsmith Development Commission's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Commission members, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 20, 2004

Commission Members
Wurtsmith Development Commission
Oscoda, Michigan

Compliance

We have audited the compliance of the *Wurtsmith Development Commission* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2004. The *Wurtsmith Development Commission's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the *Wurtsmith Development Commission's* management. Our responsibility is to express an opinion on the *Wurtsmith Development Commission's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *Wurtsmith Development Commission's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on *Wurtsmith Development Commission's* compliance with those requirements.

In our opinion, the *Wurtsmith Development Commission* complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the *Wurtsmith Development Commission* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *Wurtsmith Development Commission's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Commission members, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



WURTSMITH DEVELOPMENT COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified on financial statements

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not
considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial
statements noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not
considered to be material weaknesses?

_____ yes X none reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to
be reported in accordance with Circular A-133,
Section 510(a)?

_____ yes X no

Identification of Major Programs:

CFDA Number

Name of Federal Program or Cluster

Not Available
Not Available

Basic Caretaker Agreement
Heat Conversion Project

WURTSMITH DEVELOPMENT COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

WURTSMITH DEVELOPMENT COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

There were no audit findings reported for the fiscal year ended September 30, 2003.